

**PRAIRIE LAKES
AREA EDUCATION AGENCY 8**

**INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

June 30, 2010

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PRAIRIE LAKES AREA EDUCATION AGENCY 8

OFFICIALS

<i>NAME</i>	<i>TITLE</i>	<i>TERM EXPIRES</i>
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Board of Directors

Dean Saunders	President	2011
Bruce Bahnson	Vice President	2013
Rhonda Christensen	Member	2011
Ramon Fisher	Member	2011
Todd Lundgren	Member	2011
Gary Meyer	Member	2011
Gary Astor	Member	2013
Steven Peterson	Member	2013
Linda Twait	Member	2013

Agency

Dr. L. Kay Forsythe	Chief Administrator	2010
Ginger Hoffman	Chief Administrator Assistant and Board Secretary	2010
Michelle R. Dowd	Director of Financial Services and Board Treasurer	Indefinite



SCHNURR & COMPANY, LLP

Certified Public Accountants and Consultants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Prairie Lakes Area Education Agency 8
Fort Dodge, Iowa

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of Prairie Lakes Area Education Agency 8 as of and for the year ended June 30, 2010, which collectively comprise the Prairie Lakes Area Education Agency 8's basic financial statements listed in the table of contents. These financial statements are the responsibility of Prairie Lakes Area Education Agency 8's officials. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U. S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Prairie Lakes Area Education Agency 8 at June 30, 2010, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U. S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated November 9, 2010 on our consideration of Prairie Lakes Area Education Agency 8's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis, budgetary comparison information and Schedule of Funding Progress for the Retiree Health Plan on pages 4 through 10, 28 through 29 and page 30 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Prairie Lakes Area Education Agency 8's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the seven years ended June 30, 2010 (which are not presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 4, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of State, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Schnurr & Company, LLP

Fort Dodge, Iowa
November 9, 2010

PRAIRIE LAKES AREA EDUCATION AGENCY 8

MANAGEMENT'S DISCUSSION AND ANALYSIS

Prairie Lakes Area Education Agency 8 provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2010. We encourage readers to consider this information in conjunction with the Agency's financial statements, which follow.

2010 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$25,890,566 in fiscal 2009 to \$29,105,162 in fiscal 2010. The increase in General Fund revenues was attributable to an increase in federal grant revenue in fiscal 2010. In addition, the Agency received \$6,246,055 in federal American Recovery and Reinvestment Act (ARRA), dollars in fiscal 2010.
- General Fund expenditures increased from \$25,541,988 in fiscal 2009 to \$27,908,149 in fiscal 2010. The increase in expenditures was due primarily to 1) an increase in services provided to the local school districts, and 2) an increase in personnel costs including negotiated salary and benefits contracts, including insurance increases. The Agency had additional expenditures of \$6,246,055 in fiscal 2010 pertaining to American Recovery and Reinvestment Act (ARRA) dollars.
- The Agency's General Fund balance increased from \$3,720,124 at the end of fiscal 2009 to \$4,683,063 at the end of fiscal 2010, a 25.88% increase. One reason the General Fund balance increased is because of the Agency's increase in General Fund revenue for fiscal 2010.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

- Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Agency's financial activities.
- The Government-wide Financial Statements consist of a statement of net assets and a statement of activities. These provide information about the activities of Prairie Lakes Area Education Agency 8 as a whole and present an overall view of the Agency's finances.
- The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the Agency's operations in more detail than the government-wide statements by providing information about the most significant funds.
- Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.
- Required Supplementary Information further explains and supports the financial statements with a comparison of the Agency's budget for the year.
- Other Supplementary Information provides detailed information about the nonmajor funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the Agency.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Reporting the Agency's Financial Activities

Government-wide Financial Statements

The government-wide statements report information about the Agency as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the Agency's assets and liabilities. All of the current year revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two government-wide statements report the Agency's net assets and how they have changed. Net assets – the difference between the Agency's assets and liabilities – are one way to measure the Agency's financial health or position. Over time, increases or decreases in the Agency's net assets are an indicator of whether financial position is improving or deteriorating, respectively. To assess the Agency's overall health, additional non-financial factors, such as changes in the Agency's property tax base and the condition of its facilities, need to be considered.

In the government-wide financial statements, the Agency's activities consist of the following:

- *Governmental activities:* Most of the Agency's basic services are included here, such as regular and special education instruction, student and instructional staff support services and administration. Local school districts, federal and state aid finance most of these activities.

Fund Financial Statements

The fund financial statements provide detailed information about the Agency's funds, focusing on its most significant or "major" funds – not the Agency as a whole. Funds are accounting devices the Agency uses to keep track of specific sources of funding and spending on particular programs. Some funds are required by state law or by bond covenants. The Agency establishes other funds to control and manage money for particular purposes, such as accounting for major construction projects or to show it is properly using certain revenues, such as federal grants.

The Agency has one kind of fund:

- Governmental funds account for most of the Agency's basic services. These focus on how cash and other financial assets readily converted to cash flow in and out and the balances left at year-end available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Agency's programs. The Agency's governmental funds include: 1) the General Fund, 2) the Special Revenue Funds and 3) the Debt Service Fund.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

MANAGEMENT'S DISCUSSION AND ANALYSIS

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of financial position. Prairie Lakes Area Education Agency 8's net assets at the end of fiscal 2010 totaled approximately \$7.8 million. This compared to approximately \$6.4 million at the end of fiscal 2009. The analysis that follows focuses on the net assets and changes in net assets.

		CONDENSED STATEMENT OF NET ASSETS	
		Governmental Activities	
		2010	2009
Assets			
Current and other assets	\$	7,715	\$ 8,560
Capital assets		5,704	5,726
Total assets		13,419	14,286
Liabilities			
Long-term liabilities		2,563	2,984
Other liabilities		3,068	4,860
Total liabilities		5,631	7,844
Net Assets			
Invested in capital assets, net of related debt		3,549	3,426
Restricted		346	345
Unrestricted		3,893	2,671
Total net assets	\$	7,788	\$ 6,442

The Agency's combined net assets increased by 21%, or approximately \$1,346,712, from fiscal 2009. The increase occurred primarily in governmental activities as a result of an increase in federal revenues in fiscal 2010.

MANAGEMENT'S DISCUSSION AND ANALYSIS

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

The following analysis details the changes in net assets resulting from the Agency's activities:

	CHANGES IN NET ASSETS	
	Governmental Activities	
	2010	2009
Revenues:		
Program revenues:		
Charges for service	\$ 947	\$ 1,046
Operating grants and contributions	17,436	13,672
General revenues:		
Property tax	5,804	5,709
State foundation aid	5,525	5,987
Unrestricted investment earnings	31	89
	<u>29,743</u>	<u>26,503</u>
Program expenses:		
Instruction	615	583
Student support services	14,530	11,872
Instructional staff support services	7,989	8,836
General administration	839	897
Business administration	912	972
Plant operations and maintenance	868	717
Central and other support services	2,547	2,566
Long-term debt interest	97	106
Total program expenses	<u>28,397</u>	<u>26,549</u>
Increase (decrease) in net assets	1,346	(46)
Net assets beginning of year	<u>6,442</u>	<u>6,488</u>
Net assets end of year	<u>\$ 7,788</u>	<u>\$ 6,442</u>

Property tax and state foundation aid account for 38% of the total revenue while operating grants and contributions from local, state and federal sources account for 62% of the total revenue. The Agency's expenses primarily relate to instruction and student and instructional support services, which account for 81% of the total expenses.

MANAGEMENT'S DISCUSSION AND ANALYSIS

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

Governmental Activities

Revenues for governmental activities were \$29,743,083 and expenses were \$28,396,371. In a difficult budget year, the Agency was able to provide services needed by local school districts and remain within budget.

INDIVIDUAL FUND ANALYSIS

As previously noted, Prairie Lakes Area Education Agency 8 uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The Agency's governmental funds reported combined fund balances of \$5,029,224, above last year's ending fund balances of \$4,065,709. The primary reason for the increase in combined fund balances in fiscal 2010 was due to an increase in federal grant revenues, and the American Recovery and Reinvestment Act (ARRA) funds.

Governmental Fund Highlights

- The Agency's increasing General Fund financial position is the product of an increase in federal grant revenues and the American Recovery and Reinvestment Act (ARRA) funds.
- The General Fund balance increased from \$3,720,124 to \$4,683,063 due, in part, to the additional funds received from federal grants and the American Recovery and Reinvestment Act (ARRA) funds.

BUDGETARY HIGHLIGHTS

Over the course of the year, the Agency amended its budget once to reflect additional revenue and expenditures associated with the additional services needed and provided to the local school districts.

The Agency's total revenues were \$1,218,256 less than total budgeted revenues, a variance of 4.09%. Total expenditures were \$2,181,771 less than budgeted, a variance of 7.58%.

A schedule showing the original and final budget amounts compared to the Agency's actual financial activity is included in the required supplementary information section of this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2010, the Agency had invested \$5,704,187, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, computers and audio-visual equipment. This is a net decrease of approximately \$21,590 from last year. This decrease was primarily due to the disposal of media vans.

Prairie Lakes Area Education Agency 8 had depreciation expense of \$331,724 in fiscal 2010 and total accumulated depreciation of \$4,087,045 at June 30, 2010. More detailed information about capital assets is available in Note 3 to the financial statements.

Long-Term Debt

At June 30, 2010, the Agency had \$2,155,000 in long-term debt outstanding compared to \$2,300,000 at June 30, 2009. At June 30, 2010, the Agency had \$912,705 in compensated absences compared to \$1,104,492 at June 30, 2009. More detailed information about the Agency's long-term liabilities is available in Note 4 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

At the time these financial statements were prepared and audited, the Agency was aware of existing circumstances that could significantly affect its financial health in the future:

- The Agency has experienced an annual decrease in the number of students enrolled in local districts for the past several years. That decrease is expected to continue, and since controlled funding is driven by the number of students enrolled, decreased funding from the state is anticipated for the upcoming fiscal year.
- The Agency has been notified to expect little or no increase in Federal IDEA funding for the immediate future.
- The Agency began construction of its new central facility located in Pocahontas, Iowa in October of 2005. Funding of the \$2,490,000 project was financed by the sale of lease certificates. Repayment of principal and interest began in December of 2005 and will continue until June of 2025 with an average yearly payment of \$183,091.
- The 2003 Legislature reduced the Agency's fiscal year 2003/2004 state aid by \$1,306,673 and also imposed a \$995,807 fund balance reduction. The 2004 and 2005 Legislatures extended the \$1,299,808 and \$1,433,562 reductions to fiscal years 2004/05 and 2005/06, respectively. While a portion of the reduction was restored for 2006/07 to an amount of \$1,160,503, for 2007/08 to \$956,134, and for 2008/09 to \$751,765. For 2009/10 the prorated reduction to the budget is \$838,852. For 2010/11 the prorated reduction to the budget is \$751,765. These are permanent losses of revenue that the Agency does not have any means to recoup. These reductions have impacted the Agency's ability to provide services to schools and will continue to do so in future years.

MANAGEMENT'S DISCUSSION AND ANALYSIS

CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT

This financial report is designed to provide the Agency's citizens, taxpayers, customers, investors and creditors with a general overview of the Agency's finances and to demonstrate the Agency's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Director of Financial Service's Office of Prairie Lakes Area Education Agency 8, at 1235 5th Ave South, Fort Dodge, Iowa 50501.

PRAIRIE LAKES AREA EDUCATION AGENCY 8

PRAIRIE LAKES AREA EDUCATION AGENCY 8

Exhibit A

STATEMENT OF NET ASSETS

June 30, 2010

	Governmental Activities
Assets	
Cash and pooled investments	\$ 5,998,849
Receivables:	
Accounts	238,847
Due from other governments	1,289,903
Inventories	62,042
Prepaid expenses	2,808
Capital assets (net of accumulated depreciation)	5,704,187
Net OPEB asset	123,000
Total assets	13,419,636
Liabilities	
Payables:	
Accounts	216,033
Salaries and benefits payable	2,154,207
Deferred revenue:	
Federal	111,670
Other	81,315
Long-term liabilities:	
Portion due or payable within one year:	
Certificates of participation	100,000
Compensated absences	129,625
Early retirement obligation	173,237
Portion due or payable after one year:	
Certificates of participation	2,055,000
Early retirement obligation	609,843
Total liabilities	5,630,930
Net Assets	
Invested in capital assets, net of related debt	3,549,186
Restricted for:	
Debt service	346,161
Unrestricted	3,893,359
Total net assets	7,788,706
Total liabilities and net assets	\$ 13,419,636

See Notes to Financial Statements.

PRAIRIE LAKES AREA EDUCATION AGENCY 8

STATEMENT OF ACTIVITIES

June 30, 2010

		Program Revenues	
		Charges for	Operating
	Expenses	Services	Grants and
			Contributions
Functions/Programs:			
Governmental Activities:			
Instruction	\$ 614,720	\$ 277,340	\$ 351,699
Student support services	14,529,823	-	10,371,392
Instructional staff support services	7,989,141	458,703	6,621,169
General administration	838,751	-	-
Business administration	912,019	-	-
Plant operations and maintenance	868,011	-	-
Central and other support services	2,546,526	211,112	91,761
Interest on long-term debt	97,380	-	-
Total governmental activities	\$ 28,396,371	\$ 947,155	\$ 17,436,021

General Revenues:

Property taxes, levied for general purposes
State Foundation aid
Unrestricted investment earnings

Change in net assets

Net assets beginning of year

Net assets end of year

See Notes to Financial Statements.

Exhibit B

Net (Expense) Revenue and Changes in Net Assets	
Governmental Activities	Total
\$ 14,319	\$ 14,319
(4,158,431)	(4,158,431)
(909,269)	(909,269)
(838,751)	(838,751)
(912,019)	(912,019)
(868,011)	(868,011)
(2,243,653)	(2,243,653)
(97,380)	(97,380)
(10,013,195)	(10,013,195)
5,803,698	5,803,698
5,525,270	5,525,270
30,939	30,939
11,359,907	11,359,907
1,346,712	1,346,712
6,441,994	6,441,994
\$ 7,788,706	\$ 7,788,706

PRAIRIE LAKES AREA EDUCATION AGENCY 8

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2010

		<div> <div>Special Revenue</div> <div>Special Education Instruction</div> </div>	
	Assets	General	
Cash and pooled investments		\$ 5,577,069	\$ 75,619
Receivables:			
Accounts		198,781	40,066
Due from other governments		1,289,903	-
Inventories		62,042	-
Prepaid expenses		2,808	-
Total assets		\$ 7,130,603	\$ 115,685
Liabilities and Fund Balances			
Liabilities:			
Payables:			
Accounts		\$ 212,559	\$ 3,474
Salaries and benefits payable		2,061,437	92,770
Deferred revenue:			
Federal		111,670	-
Other		61,874	19,441
Total liabilities		2,447,540	115,685
Fund balances:			
Reserved for:			
Inventories		62,042	-
Media materials		440,807	-
Other purposes		87,328	-
Unreserved:			
Designated for subsequent year's expenditures		912,705	
Undesignated		3,180,181	
Total fund balances		4,683,063	-
Total liabilities and fund balances		\$ 7,130,603	\$ 115,685

See Notes to Financial Statements.

Exhibit C

Nonmajor		Total	
\$	346,161	\$	5,998,849
	-		238,847
	-		1,289,903
	-		62,042
	-		2,808
<hr/>		<hr/>	
\$	346,161	\$	7,592,449
<hr/>		<hr/>	

\$	-	\$	216,033
	-		2,154,207
	-		111,670
	-		81,315
<hr/>		<hr/>	
	-		2,563,225
<hr/>		<hr/>	

	-		62,042
	-		440,807
	-		87,328
	-		912,705
	346,161		3,526,342
<hr/>		<hr/>	
	346,161		5,029,224
<hr/>		<hr/>	
\$	346,161	\$	7,592,449
<hr/>		<hr/>	

**RECONCILIATION OF THE BALANCE SHEET--
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
June 30, 2010**

Total governmental fund balances (page 14) \$ 5,029,224

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds. The cost of assets is \$9,791,232 and the accumulated depreciation is \$4,087,045. 5,704,187

Long-term liabilities, including capital leases, compensated absences, and early retirement obligations, are not due and payable in the current period and, therefore, are not reported in the funds. (3,067,705)

The Net OPEB Asset is not due and receivable in the current period and, therefore, not reported in the government funds. 123,000

Net assets of governmental activities (page 12) \$ 7,788,706

See Notes to Financial Statements.

PRAIRIE LAKES AREA EDUCATION AGENCY 8

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES -- GOVERNMENTAL FUNDS
Year Ended June 30, 2010**

	<div> <div>Special Revenue</div> <div>Special Education</div> <div>Instruction</div> </div>	
	General	
Revenues:		
Local sources	\$ 6,928,609	\$ 277,340
State sources	7,546,490	351,699
Federal sources	14,630,063	-
Total revenues	29,105,162	629,039
Expenditures:		
Current:		
Instruction	-	629,039
Student support services	14,744,364	-
Instructional staff support services	7,934,751	-
General administration	840,582	-
Business administration	934,201	-
Plant operations and maintenance	886,035	-
Central and other support services	2,568,216	-
Debt service	-	-
Total expenditures	27,908,149	629,039
Excess (deficiency) of revenues over (under) expenditures	1,197,013	-
Other financing sources (uses):		
Transfers in	-	-
Transfers out	(234,074)	-
Total financing sources (uses)	(234,074)	-
Net change in fund balances	962,939	-
Fund balances, beginning of year	3,720,124	-
Fund balances, end of year	\$ 4,683,063	\$ -

See Notes to Financial Statements.

Exhibit E

<hr/>	
<hr/>	
Nonmajor	Total
<hr/>	
\$ 8,882	\$ 7,214,831
-	7,898,189
-	14,630,063
<hr/>	
8,882	29,743,083
<hr/>	
-	629,039
-	14,744,364
-	7,934,751
-	840,582
-	934,201
-	886,035
-	2,568,216
242,380	242,380
<hr/>	
242,380	28,779,568
<hr/>	
(233,498)	963,515
<hr/>	
234,074	234,074
-	(234,074)
<hr/>	
234,074	-
<hr/>	
576	963,515
345,585	4,065,709
<hr/>	
\$ 346,161	\$ 5,029,224
<hr/>	

**RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES --
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2010**

Net change in fund balances - total governmental funds (page 16) \$ 963,515

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the estimated useful lives of the assets. Capital outlay exceeded depreciation expense in the current year, as follows:

Expenditures for capital assets	\$ 361,344	
Depreciation expense	(331,724)	29,620

In the Statement of Activities, the loss on the disposition of capital assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. (51,210)

Certificates of participation provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of certificate principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which payments exceeded proceeds. 145,000

Compensated absences and early retirement obligation expense reported in the statement of activities does not require the use of current financial resources and, therefore, is not reported as an expenditure in the governmental funds. 191,787

The Net OBEP Asset is not due and receivable in the current period and, therefore, not reported in the government funds. 68,000

Change in net assets of governmental activities (page 13) \$ 1,346,712

See Notes to Financial Statements.

PRAIRIE LAKES AREA EDUCATION AGENCY 8

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Prairie Lakes Area Education Agency 8 is an intermediate school corporation established to identify and serve children who require special education. The Agency also provides media services and education support services. These programs and support services are provided to 48 school districts and private schools in a 14-county area. The Agency is governed by a Board of Directors whose members are elected on a non-partisan basis.

A. Reporting Entity:

For financial reporting purposes, Prairie Lakes Area Education Agency 8 has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The Agency has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Agency are such that exclusion would cause the Agency's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Agency to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Agency. Prairie Lakes Area Education Agency 8 has no component units that meet the Governmental Accounting Standards Board criteria.

B. Basis of Presentation:

Government-wide Financial Statements – The statement of net assets and the statement of activities report information on all of the activities of the Agency. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of net assets presents the Agency's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributable to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation (continued):

Government-wide Financial Statements (continued) – The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Unrestricted interest income and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for governmental and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The Agency reports the following major governmental funds:

The General Fund is the general operating fund of the Agency. All general revenues and other revenues that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

The Special Revenue, Special Education Instruction Fund is used to account for a program where the Area Education Agency employs teachers to provide instruction to special education pupils. The actual costs of providing instructional services to the pupils are billed to the individual school districts.

C. Measurement Focus and Basis of Accounting:

The Government-wide financial statements and the proprietary fund financial statements are reported using the economic resources measurement focus and other accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Agency considers revenues to be available if they are collected within 60 days after year-end.

Intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the Agency.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting (continued):

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

D. Assets, Liabilities and Fund Equity:

Cash and Pooled Investments – Cash includes amounts in demand deposits and money market funds. Investments are stated at fair value and non-negotiable certificates of deposit are stated at cost.

Inventories – Inventories are stated at cost using the first-in, first-out method and consist of expendable supplies and materials. The cost of these items is recorded as an expenditure at the time of consumption.

Capital Assets – Capital assets, which include property, furniture and equipment, and intangibles, are reported in the applicable governmental or business-type activities column in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the Agency as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of two years.

Land	No lower limit
Buildings	\$ 5,000
Building improvement	5,000
Vehicles	5,000
Intangibles	100,000
Furniture and equipment	5,000
Library books	Aggregated annual purchases

Property, furniture and equipment are depreciated using the straight-line method of depreciation over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	50
Building improvement	15
Vehicles	5
Intangibles	2
Furniture and equipment	10
Library books	5

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities and Fund Equity (continued):

Salaries and Benefits Payable – Payroll and related expenses for all licensed staff with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

Deferred Revenue – Deferred revenue represents an excess of cash advances by the funding source over accrued expenditures at year-end.

Compensated Absences – Agency employees accumulate a limited amount of earned but unused vacation hours for subsequent use. A liability has been recorded in the statement of net assets representing the Agency's commitment to fund non-current compensated absences. This liability has been computed based on rates of pay in effect at June 30, 2010. The compensated absences liability attributable to the governmental activities will be paid primarily by the General and Special Revenue Funds.

Long-term Liabilities – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the statement of net assets.

Fund Balances – In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets – In the government-wide statement of net assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2010, expenditures did not exceed the amounts budgeted.

NOTES TO FINANCIAL STATEMENTS

Note 2. Cash and Pooled Investments

The Agency's deposits in banks at June 30, 2010 were entirely covered by Federal depository insurance or by the State sinking fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Agency is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Directors; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Interest Rate Risk: The Agency's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the Agency.

NOTES TO FINANCIAL STATEMENTS

Note 3. Capital Assets

Capital assets activity for the year ended June 30, 2010 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 166,912	\$ -	\$ -	\$ 166,912
Total capital assets not being depreciated	166,912	-	-	166,912
Capital assets being depreciated:				
Buildings and improvements	5,676,107	162,957	-	5,839,064
Furniture and equipment	858,724	85,903	71,768	872,859
Vehicles	112,999	39,314	57,294	95,019
Library books and films	2,807,152	73,170	62,944	2,817,378
Total capital assets being depreciated	9,454,982	361,344	192,006	9,624,320
Less accumulated depreciation for:				
Buildings and improvements	1,504,879	120,186	-	1,625,065
Furniture and equipment	397,029	78,179	40,294	434,914
Vehicles	99,836	13,625	53,294	60,167
Library books and films	1,894,373	119,734	47,208	1,966,899
	3,896,117	331,724	140,796	4,087,045
Total capital assets being depreciated, net	5,558,865	29,620	51,210	5,537,275
Governmental activities capital assets, net	\$ 5,725,777	\$ 29,620	\$ 51,210	\$ 5,704,187

Depreciation expense was charged to functions of the Agency as follows:

Governmental activities:

Student support services	\$ 6,219
Instructional staff support services	128,760
General administration/Building administration	42,050
Plant operations and maintenance	141,070
Central and other support services	13,625
	<u>331,724</u>

Total governmental activities
depreciation expense

\$ 331,724

NOTES TO FINANCIAL STATEMENTS

Note 4. Changes in Long-term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2010 is as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
Certificates of Participation	\$ 2,300,000	\$ -	\$ 145,000	\$ 2,155,000	\$ 100,000
Compensated absences	152,800	1,096	24,271	129,625	129,625
Early retirement obligation	951,692	-	168,612	783,080	173,237
	<u>\$ 3,404,492</u>	<u>\$ 1,096</u>	<u>\$ 337,883</u>	<u>\$ 3,067,705</u>	<u>\$ 402,862</u>

Early Retirement Obligation:

The Agency offered a voluntary early retirement plan to its employees in previous years; however, this policy ended effective July 1, 2009.

At June 30, 2010, the Agency has obligations to thirty-seven participants with a total liability of \$783,080. Actual early retirement expenditures for the year ended June 30, 2010 totaled \$175,848.

Certificates of Participation:

The Agency has sold Certificates of Participation for the acquisition, the remodeling and improvement of, and the installation of furnishings and equipment at the office facility in Storm Lake, Iowa for a total of \$1,500,000. The Certificates of Participation represent an ownership interest of the certificate holder in a lease purchase agreement. The certificates mature over a period of twenty years with an interest rate ranging from 5.85% to 6.75%. The following is a schedule by year of the future minimum payments required:

Year Ending June 30,	Principal	Interest	Total
2011	\$ -	\$ 8,000	\$ 8,000
2012	-	8,000	8,000
2013	-	8,000	8,000
2014	-	8,000	8,000
2015	-	8,000	8,000
Thereafter	125,000	8,000	133,000
	<u>\$ 125,000</u>	<u>\$ 48,000</u>	<u>\$ 173,000</u>

Payments for the certificates of participation for the year ended June 30, 2010, including interest, totaled \$55,700.

NOTES TO FINANCIAL STATEMENTS

Note 4. Changes in Long-term Liabilities (Continued)

Certificates of Participation (continued):

The Agency has sold Certificates of Participation for the construction of the office facility in Pocahontas, Iowa, for a total of \$2,490,000. The Certificates of Participation represent an ownership interest of the certificate holder in a lease purchase agreement. The certificates mature over a period of twenty years with an interest rate ranging from 3.5% to 4.35%. The following is a schedule by year of the future minimum payments required:

Payments for the Certificates of Participation for the year ended June 30, 2010, including interest total \$186,680.

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 100,000	\$ 83,055	\$ 183,055
2012	105,000	79,305	184,305
2013	110,000	75,368	185,368
2014	115,000	70,968	185,968
2015	120,000	66,080	186,080
Thereafter	1,480,000	364,287	1,844,287
	<u>\$ 2,030,000</u>	<u>\$ 739,063</u>	<u>\$ 2,769,063</u>

Note 5. Operating Leases

The Agency has leased various equipment and facilities within the area to support and house the different zones of the Agency. These leases have been classified as operating leases and accordingly, all rents are charged to expenditures as incurred. The leases expire between June 30, 2010 and September 30, 2016. Certain leases are renewable for additional periods. Some of the leases also require the payment of normal maintenance and insurance on the properties. In most cases, management expects that the leases will be renewed or replaced by other leases.

The following is a schedule by year of future minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2010.

<u>Year Ending June 30,</u>	<u>Amount</u>
2011	\$ 240,568
2012	187,144
2013	84,675
2014	84,675
2015	84,675
Thereafter	75,275
	<u>\$ 757,012</u>

The total rental expenditures for the year ended June 30, 2010 for all operating leases, except those with terms of a month or less that were not renewed, was \$142,620.

NOTES TO FINANCIAL STATEMENTS

Note 6. Lease of Office Space

The Agency, as lessor, leases 55% of a building as office space to several entities. The lease terms expire in various years through 2014 and range from \$6,000 to \$30,635 per lease annually.

At June 30, 2010 future minimum lease payments receivable under noncancelable operating leases are as follows:

Year Ending June 30,	Amount
2011	\$ 57,852
2012	44,363
2013	13,728
2014	13,728
2015	-
Thereafter	-
	<hr/>
	\$ 129,671

Note 7. Pension and Retirement Benefits

The Agency contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits that are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P. O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 4.30% of their annual covered salary and the Agency is required to contribute 6.65% of annual covered payroll. Contribution requirements are established by State statute. The Agency's contributions to IPERS for the years ended June 30, 2010, 2009 and 2008 were \$930,362, \$911,423 and \$838,123, respectively, equal to the required contribution for each year.

Note 8. Other Postemployment Retirement Benefits (OPEB)

Plan Description The Agency operates a single-employer retiree benefit plan that provides medical and prescription drug benefits for retirees and their spouses. There are 263 active and 43 retired members in the plan. Participants must be age 55 or older at retirement.

The medical and prescription drug benefits are provided through a fully insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees, which results in an implicit rate +subsidy and an OPEB liability.

Funding Policy The contribution requirements of plan members are established and may be amended by the Agency. The Agency currently finances the retiree benefit plan on a pay-as-you-go basis.

NOTES TO FINANCIAL STATEMENTS

Note 8. Other Postemployment Retirement Benefits (OPEB) (Continued)

Annual OPEB Cost and Net OPEB Obligation The Agency's annual OPEB cost is calculated based on the annual required contribution (ARC) of the Agency, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfounded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the Agency's annual OPEB cost for the year ended June 30, 2010, the amount actually contributed to the plan and changes in the Agency's net OPEB obligation:

Annual required contribution	\$ 240,000
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost	240,000
Contributions made	(308,000)
Decrease in net OPEB obligation	(68,000)
Net OPEB obligation beginning of year	(55,000)
Net OPEB obligation end of year	<u>\$ (123,000)</u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2008. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2010.

For the year ended June 30, 2010, the Agency contributed \$2,888,676 to the medical plan and plan members eligible for benefits contributed \$657,744.

The Agency's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2010 are summarized as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost	Net OPEB Obligation
June 30, 2010	\$ 240,000	122.92%	\$ (123,000)

Funded Status and Funding Progress As of July 1, 2008, the most recent actuarial valuation date for the period July 1, 2009 through June 30, 2010, the actuarial accrued liability was \$2,756,000, with no actuarial value of assets, resulting in an unfounded actuarial accrued liability (UAAL) of \$2,756,000. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$13,937,000, and the ratio of the UAAL to covered payroll was 19.7%. As of June 30, 2010, there were no trust fund assets.

NOTES TO FINANCIAL STATEMENTS

Note 8. Other Postemployment Retirement Benefits (OPEB) (Continued)

Actuarial Methods and Assumptions Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumption about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as Required Supplementary Information in the section following the Notes to Financial Statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections for benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2009 actuarial valuation date, the unit credit actuarial cost method was used. The actuarial assumptions include a 5.0% discount rate based on the Agency's funding policy. The projected annual medical trend rate is 11%. The medical trend rate is reduced 0.5% each year until reaching the 6% ultimate trend rate.

Mortality rates are from the RP2000 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were developed from the retirement probabilities from the IPERS Actuarial report as of June 30, 2007 and applying the termination factors used in the IPERS Actuarial Report as of June 30, 2007.

Projected claim costs of the medical plan are \$505 per month for retirees less than age 65 and \$505 per month for retirees who have attained age 65. The salary increase rate was assumed to be 4.0% per year. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

Note 9. Risk Management

Prairie Lakes Area Education Agency 8 is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Agency assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

PRAIRIE LAKES AREA EDUCATION AGENCY 8

REQUIRED SUPPLEMENTARY INFORMATION

PRAIRIE LAKES AREA EDUCATION AGENCY 8

**SCHEDULE OF REVENUES, EXPENDITURES/EXPENSES AND
CHANGES IN BALANCES -- BUDGET AND ACTUAL --**

**ALL GOVERNMENTAL FUNDS
Required Supplementary Information
Year Ended June 30, 2010**

	Governmental Fund Types Actual	Total Actual
Revenues:		
Local sources	\$ 7,214,831	\$ 7,214,831
State sources	7,898,189	7,898,189
Federal sources	14,630,063	14,630,063
Total revenues	29,743,083	29,743,083
Expenditures/Expenses:		
Current:		
Instruction	629,039	629,039
Student support services	14,744,364	14,744,364
Instructional staff support services	7,934,751	7,934,751
General administration	840,582	840,582
Business administration	934,201	934,201
Plant operations and maintenance	886,035	886,035
Central and other support services	2,568,216	2,568,216
Debt service	242,380	242,380
Total expenditures/expenses	28,779,568	28,779,568
Excess of revenues over expenditures/expenses	963,515	963,515
Balance, beginning of year	4,065,709	4,065,709
Balance, end of year	\$ 5,029,224	\$ 5,029,224

See accompanying Independent Auditor's Report.

Budget		Final to Actual Variance Favorable (Unfavorable)
Original	Final	
\$ 6,966,662	\$ 7,510,350	\$ (295,519)
9,145,257	8,079,338	(181,149)
10,179,801	15,371,651	(741,588)
26,291,720	30,961,339	(1,218,256)
641,347	648,569	19,530
17,499,196	16,171,363	1,426,999
2,833,815	8,445,698	510,947
825,755	922,897	82,315
783,689	1,109,319	175,118
717,372	659,696	(226,339)
2,748,166	2,761,417	193,201
242,380	242,380	-
26,291,720	30,961,339	2,181,771
-	-	(3,400,027)
3,984,124	4,065,709	1,021,365
\$ 3,984,124	\$ 4,065,709	\$ (2,378,662)

PRAIRIE LAKES AREA EDUCATION AGENCY 8
June 30, 2010

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

The Agency's Board of Directors annually prepares a budget on a basis consistent with accounting principles generally accepted in the United States of America. Although the budget document presents functional disbursements by fund, the legal level of control is at the total expenditure/expense level, not by fund. After required public notice and hearing in accordance with the Code of Iowa, the Board submits its budget to the State Board of Education. The State Board reviews the proposed budget and either grants approval or returns it without approval with comments. Any unapproved budget must be resubmitted to the State Board for final approval. The budget may be amended during the year utilizing procedures prescribed by the State Board.

PRAIRIE LAKES AREA EDUCATION AGENCY 8

**SCHEDULE OF FUNDING PROGRESS FOR THE
RETIREE HEALTH PLAN (In Thousands)
Required Supplementary Information**

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
2009	July 1, 2008	\$ -	\$ 2,756	\$ 2,756	0.00%	\$ 14,271	19.31%
2010	July 1, 2008	-	2,756	2,756	0.00%	13,937	19.77%

See Note 9 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB Cost and Net OPEB Obligation, funded status and funding progress.

OTHER SUPPLEMENTARY INFORMATION

PRAIRIE LAKES AREA EDUCATION AGENCY 8

Schedule 1

**BALANCE SHEET - NONMAJOR GOVERNMENTAL FUND
Year Ended June 30, 2010**

	Assets	Debt Service
Cash and pooled investments		\$ 346,161
Total assets		<u>\$ 346,161</u>
	Liabilities and Fund Balances	
Liabilities:		
Total liabilities		<u>\$ -</u>
Fund balances:		
Unreserved:		
Undesignated		346,161
Total fund balances		<u>346,161</u>
Total liabilities and fund balances		<u>\$ 346,161</u>

See Accompanying Independent Auditor's Report.

PRAIRIE LAKES AREA EDUCATION AGENCY 8**Schedule 2****SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUND
Year Ended June 30, 2010**

	Debt Service
Revenues:	
Local sources	\$ 8,882
Total revenues	<u>8,882</u>
Expenditures:	
Debt service	242,380
Total expenditures	<u>242,380</u>
(Deficiency) of revenues (under) expenditures	(233,498)
Other financing sources:	
Transfers in	<u>234,074</u>
Excess of expenditures and other financing uses over revenues and other financing sources	576
Fund balances beginning of year	<u>345,585</u>
Fund balances end of year	<u><u>\$ 346,161</u></u>

See accompanying Independent Auditor's Report.

PRAIRIE LAKES AREA EDUCATION AGENCY 8

SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES

BY FUNCTION -- ALL GOVERNMENTAL FUNDS

For the Last Seven Years

	2010	2009	2008
Revenues:			
Local	\$ 7,214,831	\$ 7,255,444	\$ 6,997,952
State	7,898,189	8,816,888	8,029,311
Federal	14,630,063	10,430,610	9,675,510
Total	\$ 29,743,083	\$ 26,502,942	\$ 24,702,773
Expenditures:			
Current:			
Instruction	\$ 629,039	\$ 598,745	\$ 600,462
Student support services	14,744,364	11,653,983	16,383,637
Instructional staff support services	7,934,751	8,852,222	2,653,162
General administration	840,582	851,999	773,114
Business administration	934,201	1,024,100	733,729
Plant operations and maintenance	886,035	609,018	671,640
Central and other support services	2,568,216	2,550,666	2,579,110
Facilities acquisition and construction	-	-	60
Debt service	242,380	280,624	278,161
Total	\$ 28,779,568	\$ 26,421,357	\$ 24,673,075

See accompanying independent auditor's report.

Schedule 3

Modified Accrual Basis
Years Ended June 30

2007	2006	2005	2004
\$ 6,592,704	\$ 9,443,187	\$ 6,136,669	\$ 5,861,125
6,958,751	6,089,199	6,570,193	6,120,635
9,890,074	9,574,428	8,149,680	7,381,258
\$ 23,441,529	\$ 25,106,814	\$ 20,856,542	\$ 19,363,018
\$ 649,697	\$ 600,311	\$ 733,004	\$ 898,938
13,731,170	12,479,304	10,999,916	9,657,645
3,797,579	3,901,029	4,436,652	1,938,988
831,913	1,908,045	1,621,130	985,195
914,375	1,510,205	537,537	1,179,877
841,481	904,188	526,417	672,402
2,472,812	859,689	860,179	3,753,846
308,677	2,199,463	-	-
886,673	279,652	135,641	133,288
\$ 24,434,377	\$ 24,641,886	\$ 19,850,476	\$ 19,220,179

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**Year Ended June 30, 2010**

Project Title	CFDA Number	Pass-through Grantor's Number	Expenditures
U. S. Department of Education:			
Passed-through Iowa Department of Education:			
Education of Handicapped Act (EHA) Part B - 94-142:			
Special Education - Grants to States (IDEA, Part 3):			
Early Childhood Education for the Handicapped - ARRA	84.391	A-RKB1-08	\$ 2,237,162
Early Childhood Education for the Handicapped - ARRA	84.391	L-RKB2-08	3,767,572
Early Childhood Education for the Handicapped	84.027	080908	5,605,855
Early Childhood Education for the Handicapped	84.027	9KB2-08	1,722,330
Special Education - Preschool Grants (IDEA Preschool)			
Section 619, Age 3-5	84.173	08619-08	258,203
Special Education - Preschool Grants (IDEA Preschool)			
Section 619 - ARRA, Age 3-5	84.392A	R619-08	141,632
Iowa Quality Preschool Program Standards - Section 619			
Preschool, Age 3-5	84.173	073010	2,850
Special Education - Grants for Infants and Families			
with Disabilities - 94-142 Part C	84.181	C08-08 (8KC3)	197,396
Special Education - Grants to States (IDEA, Part C) - ARRA	84.393A	RC-08	91,048
Miscellaneous 94-142:			
Parent Educator Connection Project	84.027	87408	80,972
Parent Educator Connection Project	84.173		1,380
Parent Educator Connection Project	84.181		9,409
Early Childhood & School Age Language for			
Literacy Project	84.027		2,000
Systemic Transition Enhancement Program	84.126	08-STEP-02	8,500
Secondary Professional Development Grant	84.323A	SPDG-09	55,844
Cognitive Guided Instruction	84.323		41,335
Service Learning Grant	94.004	09SL8	4,081
Technology Literacy Challenge/E2T2	84.318	6TL3	81,082
Title II Part A - Federal Teacher Quality Program	84.367		11,456
Assessment for Learning Work Team of the Iowa Core Curr.	84.369	120709	5,281
Title III ELL/LEP	84.365		206,999
State Fiscal Stabilization Fund - ARRA	84.394		8,641
Total U. S. Department of Education			14,541,028

(Continued on next page)

**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

PRAIRIE LAKES AREA EDUCATION AGENCY 8



SCHNURR & COMPANY, LLP

Certified Public Accountants and Consultants

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors of
Prairie Lakes Area Education Agency 8
Fort Dodge, Iowa

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Prairie Lakes Area Education Agency 8 (the "Agency"), as of and for the year ended June 30, 2010, which collectively comprise the Agency's basic financial statements listed in the table of contents, and have issued our report thereon dated November 9, 2010. We conducted our audit in accordance with U. S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting we consider to be a material weakness and significant deficiency.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility a material misstatement of the Agency's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs as item II A-10 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part II of the accompanying Schedule of Findings and Questioned Costs as item II-A-10 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Agency's operations for the year ended June 30, 2010 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Agency. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The Agency's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the Agency's responses, we did not audit the Agency's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the Agency, and other parties to whom the Agency may report, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Prairie Lakes Area Education Agency 8 during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Schnarr & Company, LLP

Fort Dodge, Iowa
November 9, 2010

**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH
OMB CIRCULAR A-133**

PRAIRIE LAKES AREA EDUCATION AGENCY 8



SCHNURR & COMPANY, LLP

Certified Public Accountants and Consultants

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Directors of
Prairie Lakes Area Education Agency 8
Fort Dodge, Iowa

Compliance

We have audited the compliance of Prairie Lakes Area Education Agency 8 (the "Agency") with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2010. The Agency's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of the Agency's management. Our responsibility is to express an opinion on the Agency's compliance based on our audit.

We conducted our audit of compliance in accordance with U. S. generally accepted auditing standards, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Agency's compliance with those requirements.

In our opinion, the Agency complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

The management of the Agency is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grant agreements applicable to federal programs. In planning and performing our audit, we considered the Agency's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses, and therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, we identified a deficiency in internal control over compliance we consider to be a significant deficiency.

A control deficiency in the Agency's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Agency's ability to administer a federal program such that there is more than a remote likelihood noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the Agency's internal control. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-10 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the Agency's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs, we consider item III-A-10 to be a material weakness.

The Agency's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we expressed our conclusions on the Agency's responses, we did not audit the Agency's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the Agency and other parties to whom the Agency may report including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

Schnarr & Company, LLP

Fort Dodge, Iowa
November 9, 2010

PRAIRIE LAKES AREA EDUCATION AGENCY 8

Schedule of Findings and Questioned Costs Year Ended June 30, 2010

Part I: Summary of the Independent Auditor's Results

- (a) Unqualified opinions were issued on the financial statements.
- (b) A significant deficiency in internal control over financial reporting was disclosed by the audit of the financial statements.
- (c) The audit did not disclose any noncompliance that is material to the financial statements.
- (d) A significant deficiency and a material weakness in internal control over the major programs was disclosed by the audit of financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit did not disclose any audit findings that are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
 - Clustered Programs
 - CFDA Number 84.027 – Special Education – Grants to States
 - CFDA Number 84.173 – Special Education – Preschool Grants
 - CFDA Number 84.391 – ARRA – Special Education Grants to States Recovery Act
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Prairie Lakes Area Education Agency 8 qualified as a low-risk auditee.

Part II: Findings Related to the Financial Statements:

Instances of Non-Compliance:

No matters were reported.

Significant Deficiency:

- II-A-10 Segregation of Duties: One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties that are incompatible. We noted that the preparation of the deposit, cash receipts journal, maintenance of accounts receivable subsidiary ledger, general journal preparation and account write-offs are all controlled by one person.

Recommendation: We realize that with a limited number of office employees, segregation of duties is difficult. However, the Agency should review its operating procedures to obtain the maximum internal control possible under the circumstances.

PRAIRIE LAKES AREA EDUCATION AGENCY 8

**Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2010**

Part II: Findings Related to the Financial Statements (Continued):

Significant Deficiency (continued):

II-A-10 Response: We will investigate available alternatives and implement as soon as possible.

Conclusion: Response accepted.

Part III: Findings and Questioned Costs For Federal Awards:

Instances of Non-Compliance:

No matters were reported.

Significant Deficiency:

All programs displayed on the schedule of expenditures of Federal awards.

III-A-10 Segregation of Duties: The Agency did not properly segregate record keeping and reconciling functions for cash receipts, including those related to Federal programs. See audit-finding II-A-10.

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-10 Budget: Expenditures during the year ended June 30, 2010 did exceed the amount budgeted.

IV-B-10 Questionable Expenditures: No expenditures that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

IV-C-10 Travel Expense: No expenditures of Agency money for travel expenses of spouses of Agency officials or employees were noted.

IV-D-10 Business Transactions: No business transactions between the Agency and Agency officials or employees were noted.

IV-E-10 Bond Coverage: Surety bond coverage of Agency officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.

IV-F-10 Board Minutes: No transactions were found that we believe should have been approved in the Board minutes, but were not.

IV-G-10 Deposits and Investments: No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa were noted.

PRAIRIE LAKES AREA EDUCATION AGENCY 8

**Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2010**

Part IV: Other Findings Related to Required Statutory Reporting (Continued):

- IV-H-10 Certified Annual Report: The Certified Annual Report was certified timely to the Iowa Department of Education.
- IV-I-10 Categorical Funding: No instances were noted of categorical funding used to supplant rather than supplement other funds.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Prairie Lakes Area Education Agency 8 during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Schnarr & Company, LLP

Fort Dodge, Iowa
November 9, 2010